RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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July 22, 1992 **LETTER 1100**

MORE SURPRISES: Clinton's star rises mightily. Perot, in an incredible meltdown, quits the race. Meanwhile, Bush sulks in the background. What does our new front-runner want? Clinton wants a new fourth income tax rate of 35% or 36%, well above the current 33% ceiling. Clinton also wants a populist "millionaires' surtax" of 10%. He also wants an unspecified increase in the alternative minimum tax, higher taxes on Social Security benefits, and higher medicare taxes. Clinton justifies all this as "making the wealthiest Americans pay their fair share." Nuff said. I know who I'm voting for. I'll vote for George. I know what George will do -- little or nothing. Therefore, he's the fellow who will do the least damage to America.

THE PICTURE: In the last few Letters I directed particular attention to two items: (1) the April 8 low for the Dow, which was **3181.35,** and (2) my Primary Trend Index. These are two key places to watch; they are of major importance for both the bulls and the bears.

Well, the Dow never got within a hundred points of the critical 3181.35 level, even though the Transports broke below their own April 8 low (see page 1 chart). The downside non-confirmation by the Transports set up the conditions for the current rally. It's not a terribly impressive rally, but this is still a bull market, and nobody says that bull has to be a fire-breathing bull on every advance.

It's the old Dow Theory story: the trend remains in force until proved otherwise. As explained in recent Letters, there's been no "otherwise." In other words, the bull market remains in force.

How about my **Primary Trend Index** or PTI? Over the years my PTI has saved me an awful lot of worrying, hand-wringing and costly mistakes. The PTI is what I have always termed my "fail-safe" indicator. By that I mean that when the PTI is in a rising trend, don't be short -- and as a rule you can be long the market, preferably in strong stocks. Conversely, when the PTI is in a declining trend, don't be long. Be on the sidelines watching the show. Let me put it this way -- I've learned never to argue with the PTI when it is in an established trend.

CURRENT STATUS: Forget whether you or I or your favorite analyst-guru "feels" bearish. The fact is that on July 9 the PTI advanced to a new record high (see page 2 chart). This action tells me that the bullish forces were continuing to overpower the bearish forces in the market. There's simply no other way that the PTI could push to new highs.

Yes, I know it's a ragged market, I know it's a difficult market, and I know that a lot of stocks have been hit, many hit hard. But the rising trend in the PTI is saying that the under-structure of this market is still intact, still pushing up, still bullish.

Question: Russell, with all the problems in the nation including lagging money supply, poor retail sales, poor housing sales, and an uncertain presidential election, how can the PTI be going to new highs? It doesn't make sense.

Answer: The PTI deals strictly with market action. It s make-up has nothing at all to do with anything outside the market. Each day the PTI compiles a list of cold, unemotional statistics, and it comes up with a final figure. There is no judgment involved in its construction, no variation, no adjustment.

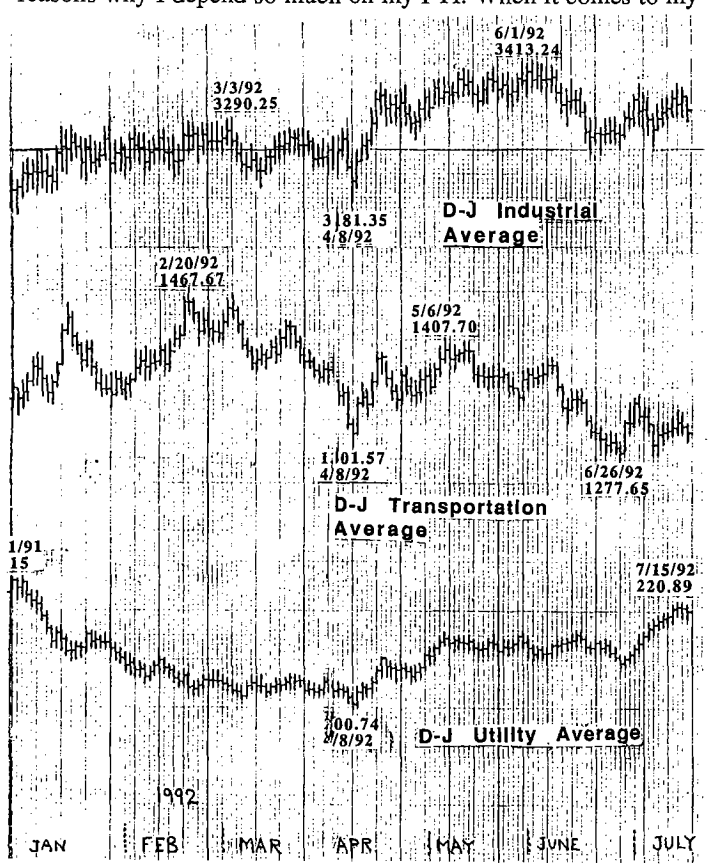
July 10 DJIA 3330.54; PTI 3517; A-D Ratio -10.06
July 17 DJIA 3331.62; PTI 3528; A-D Ratio -9.88
Dow Yield: 3.13%; Dow Price/Earnings: 68.5
Dow 200-day MA: 3198; Dow 30-day MA: 3328
Dow Times Book Value: 2.50; PTI 89-day MA: 3482
Percentage of Undervalued Blue-chips: 10%

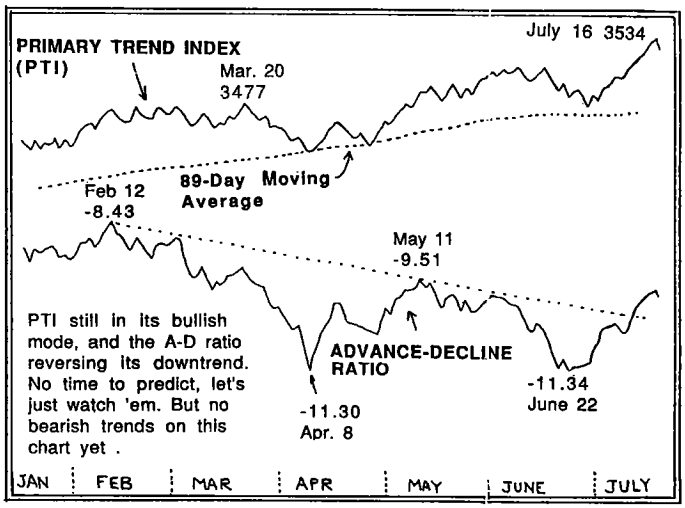
What we must deal with here is the simple, unalterable fact that the bull trend in the PTI has been reconfirmed via the new July 9 high. Fight it if you want to, but in 21 years of working with the PTI I've learned that to argue with it is just another way of losing money.

CONSIDERATIONS: Aside from what the Dow Theory and the PTI are telling us, I feel there are two overall items to consider at this time. The first (and this is potential food for the bears) is that this market has been and is still very overvalued. With the Dow and the S&P having been in the "below 3% yield zone" for many months, it's just not a healthy situation (or I should say it's not a healthy long-term situation).

The other item (and this is food for the bulls) is that there is an awful lot of nervousness, fear and foreboding out there. By this time, everybody knows about the divergences. Everybody knows about the overvaluation. Everybody knows about the nation's deficits, the unemployment, the recession, the deflationary forces and the uncertainties of the coming election. In other words, you have to believe that a lot of the negatives have already been factored into the price structure of this market.

But the conflicting factors described above comprise just more reasons why I depend so much on my PTI. When it comes to my



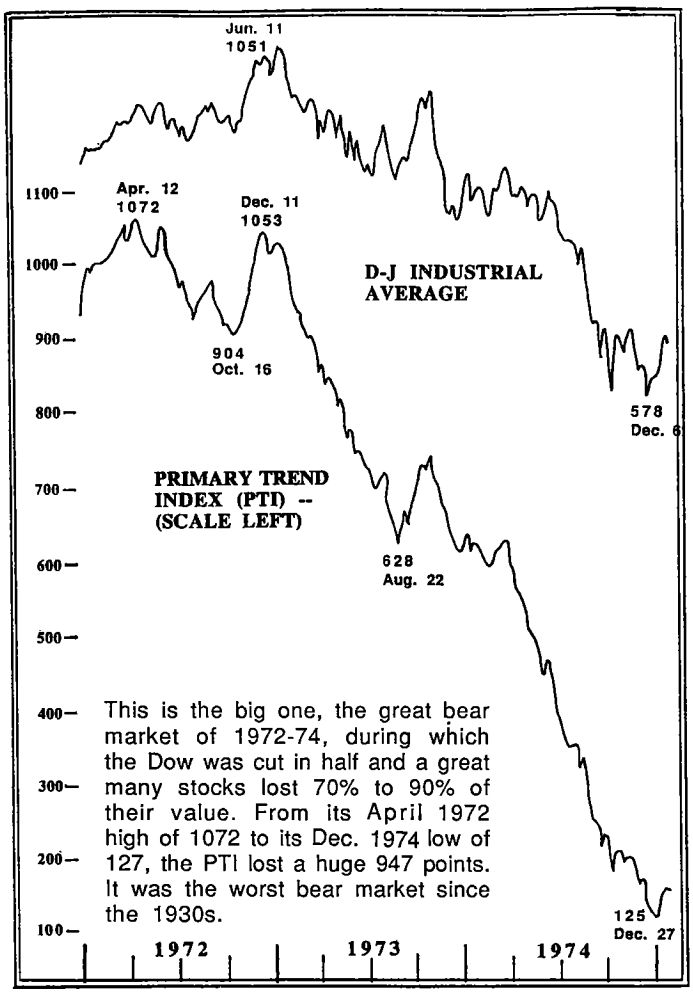


feelings or opinions about the market vs. the PTI, I will always side with the PTI. Yep I've learned that --the hard way.

OBSERVATION: Following the obvious always bothers me in this business. Many analysts have now joined me in my earlier opinion that "1992 is shaping up much like 1972." Therefore, following 1992 we should have a huge bear market much like 1973 and 1974. Is that the scenario or is that too pat? Frankly, I wonder (remember, I was one of the first to compare 1992 with 1972).

Of course, the stock market can do anything. But already there are some major differences shaping up between 1992 and 1972. The most dramatic, I feel, is the difference in the action of my PTI during 1972 and in 1992.

I have included below a chart of the Dow and the PTI during the years 1972, '73 and '74. Note that between April 12 to October 16, 1972, the PTI dropped a big 168 points. Yet, here in 1992 the PTI has, so far, held to a bullish trend. That's a huge difference already. Another big difference is that I feel bearishness, anxiety and frustration is much more pronounced here in 1992 than it was during 1972.



Interestingly, bonds and the Utility Average turned up from a June low in 1972, and they continued up to highs in December. In other words, interest rates were declining in 1972 much as they've been doing in 1992. Of course, a third difference is the weakness in the dollar here in 1992.

One item to watch: in 1972 the market turned quite weak during the August to October period, hitting an oversold low in mid-October. At that time the Transports recorded a low for the year at 212.24, a low that the Industrials refused to confirm. A big rally then carried both Averages sharply higher -- to a peak in December. The Dow struck a further peak (actually a record high) in January 1973 but again the Transports failed to confirm on the upside. From there a massive bear market began.

One reason I have included the PTI chart of 1972-74 is that this chart shows how the PTI acts during a true, crushing primary bear market. Most of my current subscribers were not with me during the '72-'74 period, and many may be wondering whether the PTI is capable of falling apart. This chart should convince you that the PTI can indeed collapse. But so far, the PTI isn't even in a downtrend.

OPINION: There's nothing more bullish than a market that is waiting for (discounting) what it thinks will be good news. That may be a reasonable description of today's market. What's the good news this market is waiting for? Why it's that elusive upturn in the economy.

OK, so the market has positioned itself for good news (note the sky-high P/E ratios and the minuscule yields), but what happens if the good news never materializes? What happens if the US just sinks deeper into recession? If that happens, we'll get a big bear market (known as a downside adjustment), it's as simple as that.

Question: Will the economy turn up, and if it does, will it be a strong upturn? Answer: No one on this green earth has the answer to that one. But as long as the primary trend of the market is bullish (which it still is), Wall Street will be saying that somewhere ahead, there's a light, yes, there's a bright light at the end of the economic tunnel. That's all we have to go on, but face it, the market's not an idiot.

DOLLAR: Over the last two months the dollar has lost over 8% against the mark. With the discount rate in the US at 3% and the Lombard Rate in Germany at a 47-year high of 9.75%, there's an absolutely phenomenal 6.75% yield differential between US rates and German rates. Germany has a problem -- the problem is a 4.5% rate of inflation plus a galloping money supply. The German s are terrified of inflation; consequently, the Bundesbank has been fighting inflation by raising rates. Since most European nations' currencies are tied to the mark and since most Euro nations are in various stages of recession, the Bundesbank is subject to conflicting pressures.

On one hand, the US and Euro nations have been pressuring the Bundesbank to ease up and give them breathing space. On the other hand, inflationary conditions in Germany dictate that the Bundesbank keep rates sky-high. The Bundesbank is the toughest, most independent central bank on the face of the earth. And inflation is every German's worst nightmare. Last week the Bundesbank raised their discount rate 0.75% to a fat 8.75%. I mean these German bankers are tough.

The US: It's obvious that the US is perfectly willing to sacrifice the dollar if it will revive the economy and if it will get George Bush & Co. back in the White House. And if a collapsing dollar triggers inflation, well, so be it. Of course, that's exactly the picture that gold is looking at. Caveat: if the current gold advance continues and heats up, look for a break (maybe a big break) in

bonds, along with higher long-term interest rates. Now that's something for Washington (and the stock market) to mull over, right?

OUR MONEY: I'm bleary, I'm teary, I'm weary, I'm wary. What are they doing to my money? What are they doing to the world's reserve currency? What's happened to that paper (actually it's not paper, it's cotton and linen) that was once known as "The Almighty Dollar"?

Here's what happened. Our politicians embarked on a policy of giving the people what they wanted, otherwise known as buying votes. The policy was to spend and spend, tax and tax -- all the while running up deficit after deficit. When questioned, the politicians told their constituents, "It's OK, don't worry, we owe it to ourselves." Of course, as time went by this was less and less true, and at present foreigners own approximately $280 billion of our dollars (in the form of securities). So we don't just owe the debt to ourselves any longer, we owe it to our (hopefully) friends overseas, in increasing amounts.

As the debts and deficits piled up, so did the cost of carrying that debt. I warned about this repeatedly. I stated that the magic of compounding assets was the way to riches. And I warned that the danger of compounding debts was the way to bankruptcy. The US chose the path of compounding deficits.

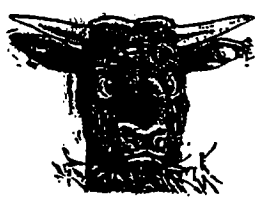
At present the interest on the federal debt is roughly $300 billion. Thus deficits and interest costs are in the process of eating up all the savings in the nation. On top of that, the money supply in the US is virtually standing still. Under these conditions, one would expect money to be expensive. Savings low, money supply growth low, the government grabbing all the money -- it's a prescription for high interest rates.

But wait, there's a recession on and there's an election coming in November. Consequently, the "independent Federal Reserve Board" has been reducing the money rates, bringing short-rates down to lows not seen in decades.

Now when a nation is running deficits of $450 billion a year ($1.23 billion a day) interest rates should normally be sky-high. The huge deficits mean that the nation is over-spending, and over-spending means a need for money, and a need for money means more expensive money or higher rates.

But the Fed is manipulating, pressuring the markets against "natural economic law." When that happens, something has to give. That something is our international purchasing power in the form of our plunging currency -- the dollar.

INVESTMENT POSITION: If you're a bull, thank the Dow Theory and my PTI because I have not received any bear signals. Which brings up the old market adage that states, "If the market won't go down, it will either do nothing or it will go up."



Personally, I don't think the current stock market is a great place in which to make money. No, I prefer the currencies and bonds. To be more specific, I recently bought Deutschemarks (out about six months) and ECUs. I bought General Electric paper (rated AAA) seven months out, and denominated in ECUs.

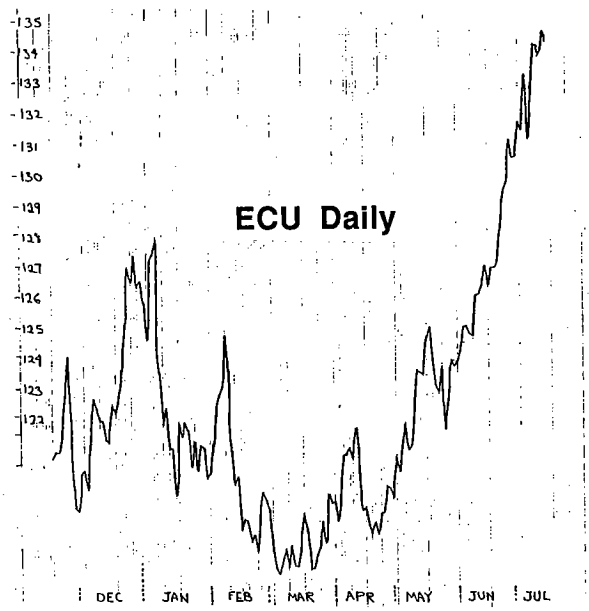
I've also taken a big position in the Benham European Government Bond Fund. Since mentioning this fund a month ago in these reports the Fund is up 4.8%. Add the 8.42% yield (annual basis) and the return is good enough for me.

Yep, I know the dollar looks awfully cheap (talk to anyone who's come back from Europe). But Purchasing Power Parity doesn't mean that much when a nation (I'm talking about Uncle Sam) tosses out a balanced budget amendment and continues to spend at the incredible rate of $1.2 billion every day, 365 days a year. And when even that kind of crazy deficit spending doesn't generate real growth in the economy, well, it's calculated to scare any sane man into diversifying out of dollars. What do you buy? I dunno -- German marks, Swiss or French francs, yen, gold coins, stock in Royal Dutch or Englehard or Nestles, gold stocks, diamonds, rubies, 10 acres of land in New Hampshire, a flat in Paris.

I particularly like the way American Barrick (ABX) has been acting, and I've added more to my position.

I've just been looking over the Benham quarterly report. Jim Benham has 22 mutual funds in his stable, plus six different money market funds. For the quarter ending June 30 the best performance was recorded by the European Government Bond Fund, up 10.22%. Second best was the Benham Gold Equities Index Fund up 9.89%. Hey wait -- out of 28 assorted funds the two best performing funds for the quarter were vehicles that took the investor out of the dollar? Mmm, is that telling us something? Well, it just might. [Benham -- (800) 321-8321].

To give you a better idea of what's been happening to the dollar, here's a daily chart of the ECU. The ECU is a combination of eleven different currencies, heavily weighted for the Deutschemark. The rise in the ECU is, of course, a move against the dollar. I show the ECU because it's a chart you don't usually see (my faithful, baseball-crazy assistant, Lynn Hunter, charts the ECU daily along with dozens of other items).



OUTSIDE OF MARRIAGE: It's possible that the following discussion will be worth more to you than all the investment advice I can give you over the next year. Here goes: there's a book just published entitled, *"The Erotic Silence of the American Wife"* by Dalma Heyn (Turtle Bay $22). The book is drawing very wide comment and is becoming a best-seller. Miss Heyn says she interviewed hundreds of American wives on the subject of extra-marital affairs. And her conclusion is that (regardless of whether they remained married or got divorced) these women all felt better, felt more alive, were personally awakened due to their affairs. *Newsweek,* having just reviewed the book, snaps, "marry a jerk, repent in leisure" and refers to the wives' male lovers as "Mr. better than you got at home." One of the foundations for this book comes from a 1985 survey of 60,000 women by *Women's Day* magazine which found that only half the women would chose the same husband if they had to do it over again.

After three marriages and around 25 years of assorted therapies I've formed my own ideas on the subject of adultery. Here are a few of them. The problems with adultery are many. (1) In adultery

you're lying by omission. You're cheating on your spouse, and indulging in an act which is both immoral and hostile. (2) When you double-cross the person you married and the person you supposedly love, you have to feel guilt (unless, of course, you're a sociopath and are incapable of experiencing guilt). Guilt is very difficult to handle. Its debilitating, it's bad for your karma, your body and your mind. In committing adultery, you're doing something sneaky and unfair -- it's something you wouldn't want your spouse to do to you.

(3) Adultery is always secretive. In fact, part of the excitement is its secretiveness. When you commit adultery, you're doing something that separates you emotionally from your spouse. Any intimacy that was there before is gone. The "guilty secret" always stands like an invisible wall between you and your spouse. It's the "thing" you can never talk about, and as such it looms large in what's left of your relationship. The GUILT and FEAR of REVELATION is always there.

(4) In having an affair you are in effect living two lives, and this situation renders you schizophrenic. You're divided, you're in two places at once. Adultery is thus a form of craziness. Sane people have their lives together -- in one place. People having an affair have their lives in two places -- they're split.

(5) This is crucial. The adulterer, in doing something secretive and hostile against his spouse, is giving his spouse huge power. He's giving his spouse the fearful power to find out about his infidelity, the power to accuse, the power to punish. In effect, the adulterer is turning his or her spouse into the villain, the feared policeman with the potential avenging club.

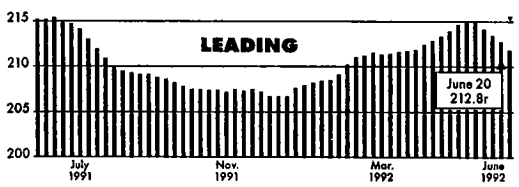
(6) Finally, adultery is cowardly. You're doing something sneaky, something that you haven't got the stomach to tell your spouse about. "Oh yeah, it would hurt him (or her) too much if I told him." Yeah, yeah, keep telling yourself that, but what you're really doing is playing it safe, protecting yourself.

Adultery is always a symptom of something else. It may be a symptom of boredom, of anger, of hostility, of revenge, or repression or a dozen other items. But it is always a sign of cowardice on the part of the adulterer. Why do I say that? Because adultery always has to do with fear of communication. The adulterous husband doesn't tell his wife about his hostility or his boredom or the fact that his wife won't do this or that in bed. The adulterous wife doesn't have the guts to tell her husband that he's a clod, an unromantic oaf or that he's fat and unattractive and that he should lose weight and take a bath.

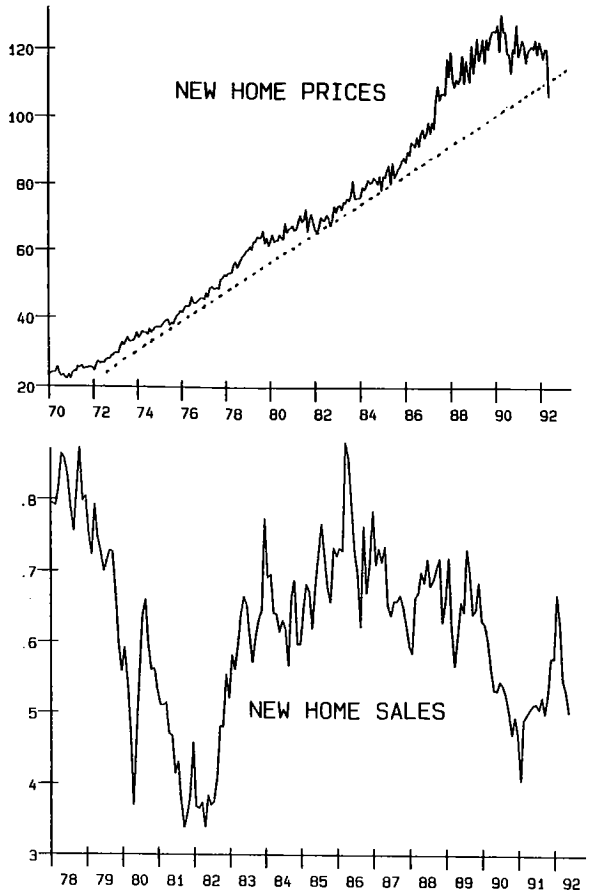
One of my conclusions is this: If you're married tell the truth. If the truth is so terrible that it will "blow up" the marriage, so be it. The marriage will in all probability blow up anyway. One sign of a really good marriage is that the two partners live dangerously. By that I mean that they take chances, that they say what's on their mind, that they stick to the truth. The worst marriages are those boring marriages that are also a lie. Neither spouse ever takes a chance. Until finally, they destroy the marriage in the most immoral and cowardly way --they take a secret "lover."

Final Russell comment: If your sex isn't with the person you're married to, you're living with the wrong person. I don't care what Dalma Heyn writes in her new book, adultery is just another way of saying that your life is a lie, your marriage is a lie and that you're a coward.

NOTES & QUOTES: The economy: Here's what *Business Week's* Leading Indicators look like. They've been down for the last five weeks in a row.



One huge problem is housing. Here are Ed Hyman's (*ISI*) latest charts on the housing picture. New Home sales are looking poor. And the trend of New Home Prices looks downright ominous (note a 22-year rising trend has now been reversed). Deflation? Looks like it.



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From our "They Never Quit" Dept: Congressman Richard Gephardt recently introduced tax legislation which would reduce the life-time gift and estate tax exemption from the current $600,000 to $200,000. Let's hope this stinker doesn't pass, but you never know with Congress, do you?

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Bill Clinton has never had an honest job -- he's spent his life at the public trough. He may be a great guy, but he doesn't know what it is to run a business. According to *Investor's Business Daily* (July 16), "If all Clinton's proposals were enacted, the cost to business could be more than $120 billion a year -- or about two-thirds of the after-tax profits earned by businesses in 1991." George Bush, are you taking notes?

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Why did Perot cut out? First reason: despite his promises, he didn't want to spend the money. Perot balked at spending for ads, he balked at spending for mail order, his followers didn't even have money for bumper stickers. Second reason: Perot cut out during Clinton's peak of popularity (during the Dem convention), a time most calculated to hurt Bush. Perot despises Bush. Third reason: Perot decided that the campaign "wasn't fun any more."

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Hot Rumor: Bush will shortly dump Quayle. Russell comment: He will if he wants a shot at a second term.

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For those of you who ignore all trends and stick to the formula of buying the top-yielding Dow stocks once every six months or once a year (and it's not a bad formula), here are the top 10 yielders: IBM 5.14%; Kodak 5.00%; Texaco 4.91%; Sears 4.89%; Chevron 4.61%; Exxon 4.48%; Am. Express 4.23%; Woolworth 4.15%; Westinghouse 3.95%; J.P Morgan 3.93%. Woolworth is the newest addition to the top 10 yielders. Exxon has been on the top 10 list for the longest time -- 141 months.

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It's clear, Bush's aides had loads of information about what was going on in Iraq prior to the Gulf War. They knew about Saddam's terrorism, they knew he was working on nuclear capabilities, they

knew he was trying to exterminate the Kurds with chemical weapons. Knowing all this, Bush nevertheless approved farm credits for Iraq, he approved dual technology sales, and in July 1990 Bush opposed a Senate move to bar further loans to Iraq. In short, Bush knew of Saddam's weapons, his genocide against the Kurds, his use of poison gas, illegal diversion of loans to buy arms, and yet Bush increasingly protected Saddam from the suspicions of the Senate. In view of all this, it would be crazy for Clinton not to drag all this into the election picture. This is one of the dirtiest campaigns in decades, but wait -- it's bound to get dirtier.

* *

Can the world's biggest creditor nation retain its position as the world leader? I don't think so. An article in the July 9 *LA Times* headlines notes, "Bush Now Seen as Just One of the Crowd." The *Times* quotes one European source as saying, "The American President is no longer the one at the front; now he's just one of seven leaders." The fact is that Japan has grown much stronger, Germany is Europe's leader, the French as usual are sniping with everyone and particularly with the US. But the big reason for the deterioration in US prestige is the decline of the US economy and the collapse of the dollar. When you're broke, people just don't take you seriously.

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What's this? China has dropped the word "planned" and added "market" to define the Chinese economy. From now on China will call itself a "socialist market economy" rather than a "planned commodity economy." Don't smirk, this is telling us a lot about the "new" China. Mmm, I just bought a pair of Reebok sneakers, cost me 77 bucks. They were very nicely made, so I looked at the label. "Made in China." Yep, the Chinese colossus is coming alive.

Here's a view of what happened to stocks on two Chinese exchanges. Shanghai -- 200 to 1400 since October, that must be some kind of bull market record (charts courtesy *Nikkei Weekly*).

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Standard & Poor's is optimistic about corporate earnings. S&P's analysts estimate earnings per share for the S&P 500 companies will come in near $25 compared with $16 per share last year. The first quarter saw earnings score their first year-to-year gain since 1989. Said David Blitzer, their chief economist, "American business has gone through a major effort to trim fat and cut expenses. The cutbacks and write-offs of the last few years will mean stronger profits in this rebound." Speaking of S&P, they just lowered California's credit rating from AA to A+. Golden State, it's more like the moulding state.

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I believe four items are scaring US consumers: (1) unemployment and loss of jobs; (2) greatly decreased income because of low interest rates; (3) attrition in the stock market and declining prices for most stocks; (4) the big drop in the price of homes. The problem of the cities is hardly helping. Like the federal government, many of the cities are facing big deficits.

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The commodity markets are racking up huge volume these days. Proof: a seat on the Chicago MERC just sold for $570,000, over $100,000 more than the price of a seat on the NYSE. Old timers (I guess I'm one) never thought they'd see that.

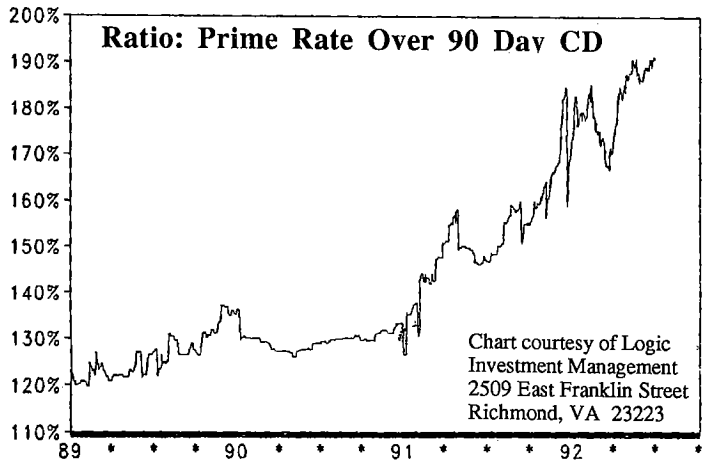
* *

It's finally happening -- the big exit from California. Why? The answer: Smog, traffic, gangs, crime, high taxes, red tape, forms and over-regulation for business. Ready for this? Here are the figures for the top seven states where Californians applied for drivers licenses between July 1, 1990 and June 1991. Washington -- 33,000, Nevada -- 31,000, Oregon -- 30,000, Arizona -- 25,000, Texas -- 20,000, Florida -- 20,000, Colorado -- 16,000 (Figures courtesy of the *Denver Post*). Hey, Governor Wilson and you California pols, are you listening? Your tax base is voting -- with moving vans.

* *

In driving down short-term interest rates, the Fed has gone a long way towards reliquefying the banks. But while short rates have collapsed, the long rates have held high. Meanwhile, the banks have been having a picnic paying little for money (have you checked what your local bank is paying you on your pass book or for a CD or on your savings account?). At the same time, the prime rate has been held relatively high, and the banks are almost reluctant to make loans. But the banks have been buying Government bonds. Since our foreign friends have been cutting way back on buying US paper, the banks have been taking up the slack.

This chart shows the ratio of the prime rate (the rate the banks charge their best customers) to CDs. So the whole Fed process has been a boon for the banks.



As for the American people, the low rates have been an income-killer. People depending on income from CDs or T-bills have seen their return cut in half. This has driven them into bond funds, bonds, stocks, mortgages or into a variety of new and exotic items with higher yields. And all the while, the dollar's been falling.

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Consumers' debt fell $2.4 billion in May, the fourth monthly drop in a row. But if there are any happy conclusions, they're deceptive. The Fed does not include home-equity loans in its Consumer Credit reports. Last year home equity loans grew almost 18% to $70.4 billion. Of this, roughly 33% was used to pay off other debts. Another unhappy reason for a drop in consumer debt -- bankruptcies. Last year there were 872,000 personal bankruptcies in the US, causing commercial banks to write off $2.2 billion in installment and credit card debt.

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Japan: Japanese stock brokers (and they're now suffering) believe that roughly 70% of individual Japanese investors have liquidated their stock portfolios. The rest are either die-hard long-term investors or semi-professionals active in futures or other derivatives. In the meantime, Japanese brokers are trying to put their investors into short-term bonds. The most popular in Japan is a one-month maturity fund offering an interest rate of 4.7%.

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Who loses when the dollar heads south? Here's a list of the largest foreign holders of US government debt (the list does not include private investments in dollars): Britain -- largest holder with $57.5 billion in US government debt; Japan with $53.3 billion; Germany with $48.0 billion, Spain with $32.0 billion, Switzerland with $29.7 billion.

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My friend Burt Dohmen [he writes the very fine *Wellington Letter* out of Hawaii (800) 992-9989] is not happy about the way things are going in this nation. In his latest report Burt offers the following remedies: (1) Reduce the capital gains tax to zero. (2) Scrap the income tax system and replace it with a flat tax. (3) Cut regulation on business by 50%. (4) Make Social Security elective -- Burt calls SS "one of the biggest rip-offs in government history." Russell comment: I agree with Burt on all the above, and let me add one remedy of my own --make Congress subject to ALL the laws that they pass. It's absolutely ridiculous to allow these pols to avoid so many of the punitive laws that we have to live with -- like Social Security, for instance.

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Faye and I just got back from San Francisco where I spoke at the Githler's ISI seminar. Saw a lot of friends, including Bill Griffith, who's been transplanted from FNN (now kaput) in Santa Monica to CNBC in New Jersey. I told Bill to be happy, to think of the earthquakes and traffic and taxes he's missing. He's happy.

We stayed at the famous Fairmont Hotel situated atop Nob Hill. The Hotel is magnificent, was built like a European stone palace, and then rebuilt in 1907 after the great earthquake and fire. Downstairs the walls are framed with memorabilia including menus from the hotel going back to early 1900s. Faye and I studied the menu prices, and those prices represent a sad commentary on the demise of the purchasing power of the dollar. I made some notes. For instance, Christmas dinner in 1941 was $2 complete with choice of prime rib, turkey or suckling pig with five veggies, desert and coffee. From 1941's menu, Lobster Thermidor $1.25, frog legs $1.35, Waldorf salad 60 cents. A full lunch in 1929 was listed at $1.25. And remember, this was one of San Frans best and most expensive hotels.

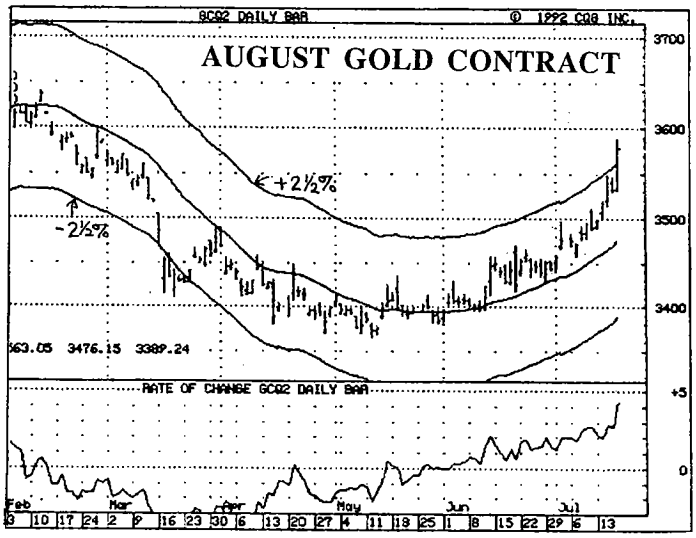
GOLD: In its current (July 20) issue the normally optimistic *Forbes* magazine in its "What's Ahead for Business" page notes, "Since World War II whenever real M-2 growth has been negative, the economy has, after a variable lag, gone into a recession. Real M-2 has been at zero or below for over a year."

All right, that's the warning from *Forbes*. Now they're talking about a "possible triple-dip recession." Bunk, you know my view -- "What triple-dip? We never got out of the first dip, we've been in one long recession." So what's Mr. Bush to do? What are the Republicans to do? They'll do what they've been doing all long. They'll tell the American people that things will get better, and they'll pressure the Fed to lower interest rates even further.

I've said it before, but I'll repeat it. Americans are strapped, they don't want to (or can't) spend except for the necessities. So the recession goes on, Alan Greenspan continues to scratch his head, Bush continues his defensive babble, and Treasury Secretary Brady continues to tell anyone who will listen that everything's all right.

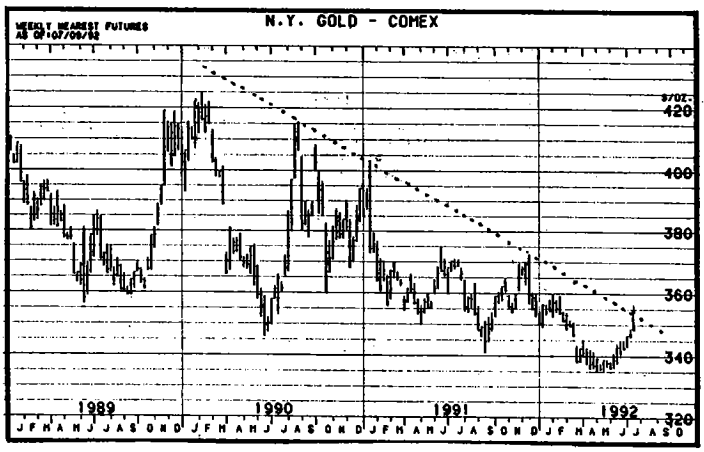
What has all this got to do with gold? Gold has been rising on the thesis that sooner or later either (1) the economy is going to turn up or (2) it's not. If the economy turns up, then the odds are (considering the massive amount of money the Fed's been pumping into the banks) that inflation is going to heat up again. And if the economy doesn't turn up, then the deficits will loom even more horrendous, and the dollar will be under more pressure than ever.

Actually, I do think the big, long-term picture is that there's no way the government is going to cut out these chronic deficits. To do so would throw the country into depression. So the dollar, long term, is doomed -- and remember, gold, short-term, medium-term and long-term, is, and always has been, real money. Mull over that statement, please. It may be the most important (and intelligent) thing I've said all year.



Meanwhile, gold has been climbing out of its four-month long "rounding bottom." The first chart shows the August gold contract pushing well above its 21-day moving average (center channel line), and last week gold zoomed above its upper channel line (which is 2.5% above the MA). On the lower section of the chart we see gold percentage rate-of-change hitting new highs.

The second chart shows last week's gold action reversing a declining trendline which has held in force since the early 1990 high. In case you didn't know, reversing a declining trendline that has been in place for 2 1/2 years -- is bullish.



If you haven't, for some reason, bought any gold related items, the stocks of choice are Amer. Barrick, Newmont Mining, Pegasus (AMEX) or the Benham Gold Fund. If you are a real speculator, you might buy some out-of-the-money options such as the Dec. 380s or even the Feb. 380s. If you have given up hope for the long-term future of the dollar, buy some gold coins for you and the grandchildren; they won't mold and they're guaranteed not to rust.

LATE NOTES: These idiots in Washington (i.e., the Administration and the Fed) have adhered to a policy of trashing our currency, and we started to see a real run on the dollar. When your currency is collapsing, the correct procedure is to defend it with HIGHER rates. But, this is an election year, and Washingtonians would gladly sell their mothers to get re-elected.

With gold turning bullish and the dollar in a free fall, the Fed and the central banks intervened. The intervention came on Monday, July 20, and it came with the dollar extremely oversold and the currencies vastly over-bought. Will intervention stop the route of the dollar? Probably, maybe, at least for a while.

So far slumping interest rates and the new mini-dollar have done little to help the nation. US exports have declined for three months in a row, and the latest US trade figures were the worst in 18 months.

NEXT MAILING: Aug. 5, 1992